



PERSONAL AUTOMOBILE INSURANCE SYSTEMS: ANALYSIS OF MICHIGAN VERSUS MIDWESTERN STATES

This paper offers an overview of the auto insurance systems and premium and loss experience between Michigan and other Midwestern states. Among the 13 states in the nation's Midwest, five (including Michigan) have no-fault laws with either a verbal or monetary threshold that allows someone to file a tort liability claim only if certain criteria are met. In Michigan, the criteria to overcome its verbal threshold include death, serious impairment of body function or permanent serious disfigurement. The four other Midwestern no-fault states (Kansas, Kentucky, Minnesota and North Dakota) all have low monetary thresholds that can readily be surpassed (given the inflationary costs of medical care), thus providing claimants ease of recovery under tort in addition to receiving first-party benefits. Among the eight remaining states, six have tort liability laws and two have add-on laws,¹ allowing claimants to immediately file a liability claim once an auto accident has occurred (Table 1).

Table 1
Michigan and Other Midwestern States
Personal Auto Insurance Systems

State	Auto Ins. System	2004 Avg. Liab. Prem.	State	Auto Ins. System	2004 Avg. Liab. Prem.
Michigan	No-Fault (Verbal)	\$ 488			
Illinois	Tort	\$ 411	Missouri	Tort	\$ 385
Indiana	Tort	\$ 377	Nebraska	Tort	\$ 336
Iowa	Tort	\$ 303	North Dakota	No-Fault (\$)	\$ 258
Kansas	No-Fault (\$)	\$ 302	Ohio	Tort	\$ 396
Kentucky	No-Fault Choice (\$)	\$ 487	South Dakota	Add-on	\$ 306
Minnesota	No-Fault (\$)	\$ 472	Wisconsin	Add-on	\$ 343

Notes:

- (1) Michigan's no-fault system has a verbal threshold, while Kansas, Kentucky, Minnesota and North Dakota have monetary no-fault thresholds of \$2,000, \$1,000, \$4,000 and \$2,500, respectively. Michigan's first-party medical benefits are unlimited; the four other states' maximum benefits are \$9,000, \$10,000, \$20,000 and \$30,000, respectively.
- (2) Kentucky's choice no-fault law allows one to choose between coverage under the tort liability system or under the no-fault system (most policyholders are under the no-fault system).
- (3) In an add-on state, policyholders may purchase additional medical expense benefits.
- (4) Average liability premiums reflect bodily injury and property damage liability, medical payments or personal injury protection, and uninsured motorists coverage (some states also offer underinsured motorist coverage). In Michigan, the premium also reflects property protection insurance (i.e., no-fault vehicle damage).

Source: 2004 premiums are compiled by the NAIC (latest available)

¹ Add-on laws provide the ability to purchase extra medical payments coverage at limits higher than those typically offered under tort laws.

Michigan's auto insurance law is unique among the Midwestern states in that it offers claimants *unlimited* first-party medical benefits. In fact, it is the only state in the entire nation that has such a provision. The maximum medical expenses provided by the four other Midwestern no-fault states range from \$9,000 to \$30,000, significantly lower than the potential cost of an injury claim in Michigan.

Given the fact that health care benefits have no limit under Michigan's auto insurance system, it should not be surprising that this state's average liability premium is higher than other states in this region of the country. A higher benefit package should reflect a higher premium. But despite a comparatively high price, the amount that Michigan drivers pay for their liability and no-fault insurance is 2 percent lower than the national average and falls in the middle third of the nation (\$488 – Michigan vs. \$499 – countrywide). What may be surprising is that motorists are not paying more for the insurance coverages offered here.

The bodily injury (BI) liability loss cost (paid loss per insured vehicle) and claim frequency (number of BI claims per 10,000 insured cars) are much lower in Michigan than in other Midwestern states. In spite of potentially high compensation that injury claimants in this state can receive, Michigan's BI loss cost is lower than those of all other Midwestern states (except for North Dakota). In fact, its six-year average BI loss cost is about half the amount of the national average (\$56 – MI vs. \$107 – countrywide) (Table 2).

Table 2 Michigan and Other Midwestern States Bodily Injury Liability Loss Cost Experience					
State	BI Loss Cost	BI Claim Freq. (per 10,000 insured cars)	State	BI Loss Cost	BI Claim Freq. (per 10,000 insured cars)
Michigan	\$ 55.82	18			
Illinois	\$ 97.51	89	Missouri	\$ 92.11	94
Indiana	\$ 76.50	80	Nebraska	\$ 84.42	76
Iowa	\$ 62.46	60	North Dakota	\$ 38.49	16
Kansas	\$ 59.32	34	Ohio	\$ 89.70	99
Kentucky	\$ 103.05	61	South Dakota	\$ 72.30	53
Minnesota	\$ 62.71	30	Wisconsin	\$ 98.36	70
<i>Source: Fast Track Monitoring System @3rd Qtr. 2006, reflecting the period 2001 through the 3rd Qtr. of 2006</i>					

The reason for Michigan's low BI loss cost is due to its very low claim frequency, which is also shown in Table 2. From 2001 through the third quarter of 2006, for every 10,000 vehicles insured, only 18 BI claims were reported in Michigan. (North Dakota with 16 BI claims reported for every 10,000 insured cars does have a lower claim frequency.)

The fact that significantly fewer than average accident victims file tort liability claims in Michigan indicates that its no-fault law is working as it should. That is, it is permitting only the most serious injuries to surpass the threshold and minimizing the number of tort claims that can be submitted. The low frequency in Michigan in turn keeps the injury loss cost and, hence, the amount that policyholders pay for insurance relatively low.

A healthy competitive market exists throughout all of Michigan. There are a sufficient number of auto carriers here, with no concentration of large companies dominating the market. Companies are able to enter and exit the state with a fair amount of ease, and consumers are assured that the level of competition exerts downward pressure on prices and supplies adequate quantities of desired products and services.

In summary, Michigan's present no-fault system is a reasonable one that is working effectively. Its average liability premium is in the middle third of the nation due to lower-than-average claim frequencies and loss costs. Although its liability premium is somewhat higher than other states in the Midwest, it must be noted that medical benefits here are the most generous in the nation. If the no-fault law is amended in such a way that would discourage insurers from competing in this market, a likely result would be an increase in insurance costs and prices and a restriction in coverages offered.

The Property Casualty Insurers Association of America is a trade association consisting of more than 1,000 insurers of all sizes and types. PCI members represent 40 percent of the total property/casualty insurance business and 53 percent of the total personal auto business. In Michigan, PCI members also represent 53 percent of the personal auto market.



THE EFFECTIVENESS OF THE MICHIGAN PERSONAL AUTO INSURANCE NO-FAULT SYSTEM

- Property Casualty Insurers Association of America (PCI) is a national trade organization representing over 1,000 major insurers that provide insurance to policyholders in all property/casualty lines, with members writing 50.7 percent of all private passenger and commercial auto insurance in Michigan and 51.3 percent nationwide.
- Michigan's average auto insurance liability premium is 19th highest, placing this state in the middle third of the nation. Its premium is 2 percent lower than the national average (\$488 – MI vs. \$499 – countrywide).¹
- Michigan's average auto insurance liability premium is 19th highest, placing this state in the middle third of the nation. Its premium is 2 percent lower than the national average (\$488 – MI vs. \$499 – countrywide).²
- Beginning in the 1970s, 16 states throughout the country had adopted auto insurance no-fault laws³ in an attempt to reduce the number of lawsuits and hold down costs. Only 12 states now have these systems.⁴ One reason why some states' laws were repealed is because, over time, their provisions grew ineffective. Due in part to escalating health care costs, states' low monetary thresholds enabled claimants to easily overcome them and file liability claims to compensate them for injuries that were not very serious in nature and for which they could receive non-economic damages.
- Countrywide, nearly three out of 10 injury claimants are now able to overcome the tort threshold because the amount of their claims exceeded the dollar threshold level. The share of claimants meeting this criterion rose by 10 percentage points from 1997 to 2002, making this the fastest growing reason for being able to file a tort claim.⁵
- Michigan is one of three states with a verbal no-fault threshold under which claimants must meet specific criteria regarding the type of injury or other condition before they can file a liability

¹ The latest average premium data (2004) are compiled by the National Association of Insurance Commissioners.

² The latest average premium data (2004) are compiled by the National Association of Insurance Commissioners.

³ No-fault permits injured persons to sue for pain and suffering or other non-economic damages if a monetary or verbal threshold or qualifier is met.

⁴ The 12 current no-fault states are Florida, Hawaii, Kansas, Kentucky, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Dakota, Pennsylvania, and Utah. States that repealed their no-fault laws are Colorado, Connecticut, Georgia, and Nevada.

⁵ Insurance Research Council, *Auto Injury Insurance Claims: Countrywide Patterns in Treatment, Cost and Compensation*, December 2003

claim.⁶ Michigan is the only state, however, that offers *unlimited* first-party medical benefits giving auto accident victims the ability to receive significantly higher amounts of recovery than anywhere else.

- In 2002, only 12 percent of no-fault claimants in Michigan were eligible for a liability claim. This proportion is lower than that found in other no-fault states, ranging from a low of 15 percent (in Utah) to a high of 45 percent (in Colorado).⁷
- In spite of its potentially high costs of claims which are paid to injury claimants, Michigan has one of the lowest bodily injury (BI) liability loss costs (paid losses per insured vehicle) in the nation. This state's five-year average BI loss cost is about half the amount of the national average (\$56 – MI vs. \$107 – countrywide). It is one of the lowest among all no-fault states, as shown below.

Michigan and Other No-Fault States: Bodily Injury Liability Loss Costs					
	BI Loss Cost		BI Loss Cost		BI Loss Cost
Michigan	\$ 56	Kentucky	\$ 103	New York	\$ 169
Florida	\$ 141	Massachusetts	\$ 187	North Dakota	\$ 38
Hawaii	\$ 72	Minnesota	\$ 63	Pennsylvania	\$ 100
Kansas	\$ 59	New Jersey	\$ 160	Utah	\$ 92
<i>Source: Fast Track Monitoring System @3rd Qtr. 2006, reflecting the period 2001 through the 3rd Qtr. of 2006</i>					

- Michigan has a lower BI claim frequency than most no-fault states (except North Dakota). From 2001 through the third quarter of 2006, for every 10,000 vehicles insured, only 18 BI claims were reported in Michigan compared to other states, from a low of 29 BI claims (in Hawaii) up to a high of 245 BI claims (in Massachusetts).⁸ The low claim frequency in Michigan indicates that its no-fault law is working as it should; i.e., it is permitting only the most serious injuries to surpass the threshold and minimizing the number of tort liability claims that can be filed. This in turn keeps the injury loss cost and, hence, the amount that policyholders pay for insurance relatively low.
- A healthy competitive market exists throughout all of Michigan. There are a sufficient number of auto carriers here, with no concentration of large companies dominating the market. Companies are able to enter and exit the state with a fair amount of ease, and consumers are assured that the level of competition exerts downward pressure on prices and supplies adequate quantities of desired products and services.

⁶ Florida and New York also have verbal thresholds. In general, criteria for overcoming a verbal threshold include, but are not limited to, permanent injury or dismemberment, serious disfigurement, loss or impairment of body function, death and uncompensated economic loss.

⁷ Insurance Research Council, *Auto Injury Insurance Claims: Countrywide Patterns in Treatment, Cost and Compensation*, December 2003. Kentucky, New Jersey and Pennsylvania are not included in this comparison because they have "choice" no-fault laws (i.e., policyholders may choose between being insured under the tort system or the no-fault system). Note that Colorado's no-fault law was allowed to sunset, effective June 30, 2003.

⁸ Fast Track Monitoring System @3rd Qtr. 2006; North Dakota's average BI liability claim frequency is 16 claims per 10,000 insured cars from 2001 through the third quarter of 2006.

- Michigan's present no-fault system is a reasonable one that is working effectively. Its liability premium is in the middle third of the nation due to lower-than-average claim frequencies and loss costs. Medical benefits in this state are the most generous in the nation. If the no-fault law is amended in such a way that would discourage insurers from competing in the market, a likely result would be an increase in insurance costs and prices and a restriction in coverages offered.

The Property Casualty Insurers Association of America is a trade association consisting of more than 1,000 insurers of all sizes and types. PCI members represent 40 percent of the total property/casualty insurance business and 53 percent of the total personal auto business. In Michigan, PCI members also represent 53 percent of the personal auto market.



**Property Casualty Insurers
Association of America**

Shaping the Future of American Insurance

Gov. Relations: **Ann Weber, Vice President, Regional Manager and Counsel
(MI, MN, ND, and SD)**
ann.weber@pciaa.net
847-553-3689

Legislative Counsel: **George M. Carr**
gmcarr@carrlawfirm.com
517-371-2577

Michigan Market: 280 PCI members write 52.5 percent of the Michigan personal automobile market; 36.6 percent of the Michigan homeowners market; 45.2 percent of the Michigan commercial market (excluding workers compensation); and 59.7 percent of the Michigan workers compensation market.

U.S. Market: Nationally, PCI members write 50.8 percent of the U.S. automobile insurance market; 39.6 percent of the U.S. homeowners insurance market; 33.5 percent of the U.S. commercial property and liability market (excluding workers compensation); and 41.6 percent of the U.S. workers compensation market.

Membership: PCI is the premier industry trade group in the property/casualty insurance market, representing companies that write 40.7 percent of the nation's auto, homeowners, business and workers' compensation insurance. PCI member companies comprise the most diverse group of insurers of any national insurance trade organization, and the association has member companies headquartered in every state.

PCI's more than 1,000 member companies range in size and scope from billion-dollar national corporations to multi-line regional groups to single-state and niche or specialty market writers.

As a group, PCI members write every major line of insurance for a combined total of \$184 billion in annual premium. PCI members write every major type of coverage, including:

Purpose: PCI provides a responsible and effective voice on public policy questions affecting insurance products and services, and serves as an information and education clearinghouse for consumers, lawmakers and the media.

History: PCI was formed in January 2004, by the merger of the National Association of Independent Insurers and the Alliance of American Insurers, two trade groups with well-established histories of providing reporters and editors with valuable and timely information on insurance industry issues.

Areas of Expertise:

PCI's staff has expertise in all areas of property/casualty insurance, from automobile repair to workers compensation issues, including developing trends and insider information. This knowledge makes us your best source for background information, statistical data and insightful quotes and commentary on all insurance issues.

PCI's media professionals can help you set up interviews with our technical experts and can provide information on any of the subjects listed below or for almost any property/casualty insurance-related issue:

- **Asbestos Liability**
- **Automobile Insurance**
 - Replacement parts
 - Diminished value
 - Repair costs
 - Theft and fraud
 - EDRs (black boxes)
 - No-fault reform
- **Business Insurance**
 - Construction defects
 - Employment practices
 - Environmental
 - General liability
 - Professional liability
 - Class action lawsuits
- **Civil Justice Reform**
 - Asbestos litigation
 - Class action lawsuits
 - Medical liability
- **Homeowners Insurance**
 - Loss history (C.L.U.E. reports)
 - FAIR plans
 - Flood
 - Natural disaster
 - Storm damage
 - Replacement cost
 - Mold
 - Building codes
- **National Disasters**
 - Hurricane
 - Flood
 - Earthquake
 - Tornado
 - Hail
 - Loss mitigation
 - Disaster planning and preparedness
- **Privacy**
- **Terrorism Insurance**
- **Underwriting and Rating Factors**
 - Credit
 - C.L.U.E.
 - Territorial rating
- **Workers Compensation**

Headquarters:

2600 South River Road
Des Plaines, IL 60018-3286
847-297-7800
Fax: 847-297-5064

Regional Offices:

Albany, N.Y.; Atlanta, Ga.; Austin, TX; Boston, Mass.; Denver, Colo.;
Olympia, WA; Pittsburgh, Pa.; Sacramento, Calif.; Tallahassee, Fla.;
Trenton, N.J.